

# PUBLIC EMPLOYEES' RETIREMENT FUND INDIANA

## EMPLOYER UPDATE SEPTEMBER 2001

### MESSAGE FROM THE EXECUTIVE DIRECTOR

**E. WILLIAM BUTLER**



*We want to form a partnership with you that will allow us to deliver the very best in retirement services to your employees and retirees.*

This inaugural edition of the Public Employees' Retirement Fund newsletter to our employers comes to you with the hope that it will lead to better communications between PERF and our member employers and the conviction that better communications will work to the benefit of our members. From recent meetings around the state and conversations with different employers, we know that there is a strong desire on the part of both the Fund and our employers to establish better and more effective channels of communications. We trust that this newsletter will be the first step in that effort.

A number of important events over the past several years have combined to put the Fund in a position where it must now update itself and bring its practices and services up to more contemporary standards. The equity referendum adopted in 1996 created the opportunity for the Fund to move its investment portfolio into a wider range of asset classes and more global market participation. At the same time, the demographics of today's workforce tell us that retirement security and the plans covering these workers will become increasingly important to both the employees and the employers.

As we move forward with our plans to make PERF a top tier pension fund, we recognize the importance of our relationship with our employers. So important, in fact, we view you as a partner. We want to form a partnership with you that will allow us to deliver the very best in retirement services to your employees and retirees.

It is important to mention, at this juncture, that we also view *you* as another constituency to whom we owe good service. There is any number of services we deliver to you and we recognize that we can do a better job. Information flows between the Fund and our employers regarding service and other employee information are constant and growing. In addition, there are the significant monetary transfers we receive from you on a regular basis representing employer and employee contributions. We must account to you for these and more.

I come back to the point, however, that by delivering better services to you, we will ultimately give better retirement service to the members. We think that communication is the best place to start. We want to emphasize that communications should go both ways. Listening to you is as important as talking to you; and we'd like to do a better job of both.

## LEGISLATIVE UPDATE

### Voluntary Contributions to your ASA

Members of PERF may contribute up to an additional 10% of their compensation, on top of the mandatory 3% contribution, into their Annuity Savings Account (ASA). Like the mandatory 3% contributions, interest and earnings on additional voluntary contributions will be tax deferred until you take a distribution of your account at retirement or in a refund or rollover. However, voluntary contributions will be withheld from your paycheck on a post-tax basis, meaning you can contribute up to 10% of your earnings *after* taxes have been withheld from your salary. Your employer is administering this program through the payroll process. If you are interested in participating, please contact your payroll supervisor for further information.

**State agency payroll administrators should direct their inquiries to the State Auditor's Office.**

### Military Service Credit Purchase

Effective July 1, 2001, PERF members who retire after June 30, 2001 and served in the United States Armed Forces and were honorably discharged may purchase up to two years of military service credit at actuarial cost. This is in addition to any other military service credit that is granted by law to members. Military service will not be used for vesting purposes. Therefore, to become eligible to retire, a member still must have 10 years of PERF-covered service to become vested for the defined benefit pension. The additional military service will be included in their benefits calculation. Members may make the purchase of service after they have been in the Fund for a period of one year.

### Confidentiality of Fund Records

Effective July 1, 2001, all Fund records of individual members and membership information, except name and years of creditable service, became confidential. The general release of member information may commence only at the discretion of the member, the member's designated power of attorney, the member's selected representative of their estate, or by court order. The amendment allows PERF to communicate limited retired member information with the Retired Indiana Public Employees' Association (RIPEA) in the administration of the RIPEA retiree health insurance program.

### Quarterly Investment Direction Changes

Effective January 1, 2002, members of PERF may change their Investment Directions on their Annuity Savings Account once every quarter to become effective the first day of the next quarter (***with 30 days notice***). Currently, members are allowed to change their investment direction once per year.

### Cost of Living Adjustment and Thirteenth Check

Effective July 1, 2001, a one percent (1%) cost of living adjustment was approved for PERF eligible retirees and beneficiaries who retired or became disabled prior to July 2, 1999. A Thirteenth Check was approved for PERF and the Excise Police and Conservation Enforcement Officers' Retirement Fund to be made payable on November 1, 2001 and November 1, 2002.

### EARNINGS LIMITATION FOR RE-EMPLOYED RETIRED MEMBERS

The legislature approved an earnings test for retirees who become re-employed in a position covered under PERF and the Teachers' Retirement Fund, which works to conform Indiana law with the federal Senior Citizens Freedom to Work Act of 2000.

The new law applies to all current and newly retired members. Effective July 1, 2001, the new law stipulates:

1. There will be no earnings limitation on PERF benefits for those retired members who are of Social Security normal retirement age (currently age 65 for those born 1937 or earlier).
2. Retirees below the Social Security normal retirement age who become re-employed in a position covered under PERF or the Teachers' Retirement Fund may earn up to \$25,000 for the calendar year of before an earnings limitation is applied to their benefits.

***IC 5-10.2-4-8(c): State law requires the Fund to stop paying benefits to retired members who become re-employed in a PERF-covered position within 90 days of their retirement date.***

For those retirees who are subject to the earnings test and become re-employed in a covered position, they may continue receiving retirement benefits until their earnings exceed the annual earnings test amount. For any retiree who is re-employed in a covered position, a second retirement benefit will be calculated and added to the original benefit at the time the person retires from re-employment.

Regardless of age, if a retired member comes back to work in a covered position, they will be re-enrolled in the Fund and employer contributions shall recommence. The mandatory 3% employee contribution will resume only when the earnings limit is met and the benefit is suspended. At the time a re-employed retired member under the normal retirement age exceeds the \$25,000 limitation in a covered position, their benefits will be suspended for the remainder of the calendar year. Benefits will be reinstated at the beginning of the next calendar year and will remain in force until the member exceeds the annual limit once again.

## International Equity Option added to the Annuity Savings Account Program

In the latest effort to diversify the PERF portfolio, the Fund has begun investing in international equities. Therefore, the PERF Board will make an international equity index investment option available within the Annuity Savings Account (ASA) Program effective January 1, 2002.

To ensure the long-term stability of the PERF portfolio, and its ability to pay benefits well into the future, investment decisions are made with a long-term time horizon and diversification in mind. Simply because this option is being made available to you does not necessarily mean it is a prudent decision for your particular circumstances. Since the Guaranteed Fund is based on the overall investment performance of the total PERF portfolio, it is the only investment option in the ASA Program that can stand alone as a diversified option within itself.

### WHY INTERNATIONAL?

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*Why would anyone consider investing internationally with all of the investment opportunities currently available in the United States?*

The simple answer is diversification. Spreading your money over a variety of investment options can help reduce the long-term risk of loss to your money. Different types of securities whether they are stocks or bonds, or U.S. or international, all behave differently in the market place. The performance of a particular asset class can have direct impact on the upward or downward course another asset class can take. Consequently, having “all your eggs in one basket” can be a risky proposition.

**As we have said in the past, when making investment decisions, it is critical to be aware of your risk tolerance and your own distinctive time frame for needing your PERF money. Investing in international equity may or may not be right for your particular financial needs. However, it does offer you another opportunity to diversify your Annuity Savings Account should it fit into your own unique financial situation.**

### EAFE INDEX

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The International Equity Index Fund will be a purely indexed investment strategy. The most prominent and popular international equity funds are those investing in stocks of companies located in leading European countries (including Germany, France and the United Kingdom), Australia and the Far East.

The Europe, Australasia, Far East (**EAFE**) Index is the benchmark index that will be used by the Board and investment staff to measure the performance of the selected investment manager. Successful index managers will pursue returns that closely track the performance of the index they are measured against, and will not “make bets” against the index in an effort to outperform it.

#### Indexing

Indexing is an approach to investing which tracks the performance of a specific stock or bond market benchmark, or index. In order to closely match the performance of a specific index, an investment manager will buy most, if not all, of the stocks or bonds in a particular index.

The PERF International Equity Index Fund will replicate the EAFE Index.

### INVESTMENT MANAGER

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**State Street Global Advisors (SSGA)** has been selected by the Board to manage the first international option of the annuity savings account investment program. With a proven track record, State Street is among the world’s finest global investors with 370 investment professionals, 30 offices and 9 investment centers throughout the world.

Since their inception in 1979, SSGA’s performance has closely followed that of the EAFE Index. As of September 30, 2000, the annualized gross of fees return for SSGA’s EAFE Index Fund since inception was 12.92% versus 12.64% for the index over the same time period.

You can visit State Street Global Advisors on-line at [ssga.com](http://ssga.com).

#### State Street Global Advisors

- Proven record of consistently tracking the performance of the EAFE index since inception in 1979
- More than \$370 billion in non-U.S. assets under management
- Listed by Pensions & Investments as the single largest manager of international indexed equity (May 1, 2000)

### FURTHER INFORMATION

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You will be provided with more detailed information as we approach the end of the year in upcoming fund publications, Quarterly Member Statements of Account and the Fund’s web site ([www.perf.in.gov](http://www.perf.in.gov)).

## **PARTNERSHIP FOR PROGRESS**

### *Building the Employer Relationship*

PERF is an organization with two essential functions – investing contributions and providing services to members and their employers. To great success, the Fund has spent much of its energy and focus over the past few years diversifying the portfolio into equities. Adding value to your employer contributions, which will ultimately be paid to your employees in benefits, or back to you in the form of lower contribution rates is our critical task. However, the pursuit of excellence in prudent investing has come at a price to member services. The Board and staff recognize that member services do not have to suffer at the hand of strong investment practices.

Consequently, the first phase of a member services improvement plan is underway. A plan that will begin answering the following fundamental questions:

- Why does it take so long to get an estimate or begin receiving benefits?
- Why is it so difficult to get someone on the phone at PERF?
- Why do I have to wait so long to get an appointment for retirement counseling?

These questions highlight the basic challenges the Fund faces over the next few years and their solutions will not happen overnight. However, there are several things happening right now that we think will create tremendous advances in member services. We realize the conversation has been fairly one-sided, in recent years, but we want to change that. As an employer, it is important to understand the nature of the problems, as we will need your assistance in sharing information and resources to find solutions that best suit you and your employees.

### ***CURRENT INITIATIVES***

Information is the key component of customer service improvements. The quality of PERF service depends almost entirely upon the timely access to correct information. Enhancing service to members will require taking a serious look at how information is transferred between employers and the Fund. Four important projects will work to create a more seamless transaction of information from employers to PERF and between the Fund and members:

- State of Indiana Retirement Information System (SIRIS)
- Telecommunications and Call Center
- Staff Development
- Data “Clean-up”
- Electronic Employer Reporting

### **SIRIS**

You will read more about SIRIS in the TECHNOLOGY UPDATE, but the new system is being designed to allow us to process work electronically, rather than the historically manual paper processes that are cumbersome and time consuming. It will put member information at the fingertips of our counselors, accountants and customer service agents to answer inquiries more effectively. SIRIS will allow us to offer and accept more information to and from employers and members via the Internet.

### **EMPLOYER BLITZ**

We spent much of this summer sitting down with 25 of PERF’s largest employers to “give a face to the Fund” and to see how our future plans and employer expectations match up. We found that employers were eager to get more involved in PERF’s activities and bring their experience to the table.

The challenge now is to begin building a more productive relationship with employers that will ultimately benefit the members. These meetings have resulted in a shift in priorities, beginning to invest in human and physical resources, as well opening up the lines of communication.

With the first wave of “baby boomer” retirements, and their replacements entering the workforce, our active and retired membership is growing faster than ever in the Fund’s history. As this demographic continues to grow, so will the demand for more and better services from PERF.

*We realize the conversation has been fairly one-sided, in recent years, but we want that to change. As an employer, it is important to understand the nature of the problems, as we will need your assistance in sharing information and resources to find solutions that best suit you and your employees.*

### **Telecommunications and Call Center**

We know contacting PERF over the phone is difficult, and we apologize for your frustrations with our phone system. Our staff of roughly 60 people tries very hard to keep up with more than 200,000 active and retired members in the system, but there is a limit to what we can currently handle in the way of incoming phone traffic. However, we are currently in the midst of updating our telecommunications technology and planning an investment in people to create a fully-functional call center that will answer calls at their source, rather than our automated attendant. We will continue to report our progress on the development of this critical task in future updates.

### **Staff Development**

Improving technology is vital to our future success, but people still drive quality service and our members cannot necessarily talk to a computer when it comes to the very personal and sensitive issues that surround retirement. Consequently, the Fund is taking a phased-in approach to long-term staffing needs, while identifying immediate needs that must be met. Over the next year, we will focus on the development of the call center, an outreach services program that will serve as the public education arm of PERF, and adding depth to our benefits administration and finance divisions to process benefits, refunds and employer requests quicker.

### **Data “Clean-up”**

We are in the process of evaluating the quality of the information the Fund currently maintains. One of the biggest challenges to improving customer service is having the correct information in a timely fashion to process a member request. As a result, we want to engage the employers in an effort to update critical member information before it becomes necessary to transact business with the member. This is not easy and will involve quite an effort by PERF and employers to locate missing information. However, you will find that our service will improve and many of the frustrations you have with PERF – like requests for certification of service and other requests for missing member data – will become the exception rather than the rule when processing an application.

### **Electronic Employer Reporting**

Of the nearly 1,400 separate employers who participate in PERF, less than 30 of them report quarterly information in an automated fashion. That means, that the Fund and most employers must handle a great deal of member information on paper, which is incredibly time consuming, costly and susceptible to human error. This is a perfect example of where technology can work to benefit PERF and employers, and ultimately, the members. We are working to establish a number of different methods for employers to submit contribution and service data to the Fund in a fashion that is convenient to your specific needs.

These, by no means, represent an exhaustive list of our current initiatives, but they serve to show some of the more critical things we are working towards and illustrate where we want to engage the employers in helping direct the future of the Fund.

PERF is in transition and will witness incredible change over the next few years. It will require a lot of heavy lifting on our part to deal with the drastic shift in how we do business and increasing demand for services, but we will need your help in these and other endeavors that are crucial to lasting improvement.

## TECHNOLOGY UPDATE

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With change happening so rapidly at PERF, it is easy to get lost in the complex detail that goes along with changing to a new computer system. Since the first of this year, PERF has been busy with several technology projects. We have just begun to solicit the assistance of employers to assist in the development of these initiatives. The four primary projects we are focusing on will greatly change how members and employers will interact with the Fund, and all work to address one key issue – *timely access to up-to-date member information*.

- ***SIRIS***
- ***Electronic Employer Reporting***
- ***Data “Clean-up”***
- ***Backfile Conversion***

Instead of trying to explain the technical aspects of these projects in great detail, we would simply like to introduce you to them and show you some of the advantages they will bring to improving service and access to PERF data.

### **SIRIS – State of Indiana Retirement Information System**

**SIRIS** is replacing our mainframe legacy system. The new system is designed to automate certain functions handled by PERF staff. It currently houses all member demographic information and Phase 2 of the system will house financial data, as well as process and pay benefits to our retirees. SIRIS is being designed to improve the efficiency of our business practices. It is also the first step in making information available via the Internet for members and employers, similar to that of an on-line banking system.

#### **ADVANTAGES**

Among other things, SIRIS allows PERF staff to move member requests electronically through the Fund, rather than passing paper between departments. This allows staff to track a member's request and minimizes delays in getting it from one department to another. There are several other advantages that correlate to the success of the other three projects and will determine how effective the new system can ultimately become.

**Phase one of the SIRIS project, which contains the member demographic information, went on-line on April 2, 2001. Phase two, which contains our benefits information, is scheduled to go on-line in March 2002.**

### **ELECTRONIC EMPLOYER REPORTING**

**Electronic Employer Reporting** is a process of providing a way for employers to transmit member data electronically. This will allow employers the ability to report and transmit quarterly contributions and creditable service information to PERF in a variety of electronic formats, rather than manually on paper.

#### **ADVANTAGES**

Electronic reporting will standardize the method in which employers report to PERF, speed up the process of posting information on the system and work to eliminate any human errors that can result in manually entering information into the system. Ultimately, if PERF is to provide a means for employers and members to access their account information via the Internet, electronic reporting will become essential to making that information accurate and timely.

**As this project is just getting underway, PERF will be contacting employers over the next several months explaining this new opportunity and how they can participate.**

## DATA “CLEAN-UP”

**Data clean-up** is a process of looking at our current information in its various forms and determining where there are missing pieces of information, such as a missing hire date, incorrect address, missing beneficiary data, etc. Deficient information is the most common cause of delays in processing member requests. Where a deficiency is found in our information, we will require the assistance of the employers in locating that missing member information.

### **ADVANTAGES**

Once data is brought completely up-to-date, processing benefits and refund applications will occur much faster and work to eliminate the waiting period between when a member leaves employment and begins receiving their PERF benefits. It will also minimize the number of requests PERF makes to employers for service verification. We intend to work with employers in capturing all pertinent member information *before* it is required to process an application.

**The first phase of this project has been underway for one year and is scheduled for completion during the last quarter of 2002. Data clean-up will be an on-going process beyond 2002, but if done correctly, will create a much smoother transmission of information between PERF and employers and greatly enhance service.**

## BACKFILE CONVERSION

**Backfile conversion** is a process of taking decades of paper documents and scanning them into electronic images that can be viewed by PERF staff on a personal computer. PERF currently stores several million member and employer documents in our offices at 143 West Market Street. With approximately 250,000 active and retired members, that number is growing rapidly. New documents that arrive at PERF are being scanned into the system by our new scanning department.

### **ADVANTAGES**

This allows member documents to be literally “at the push of a button” for our staff when a member requests service from the Fund. It not only provides staff with quicker access to documents, but also allows for multiple people to view the same document at the same time. Once documents are imaged into the system, processing benefits will become less cumbersome than dealing with large volumes of paper that can be collected over a member’s career in a PERF covered position

**The backfile conversion project has been up and running since April 2<sup>nd</sup> of this year and is planned for completion around July 2002.**

Based on what we’ve heard from members and employers, we feel this is the right direction to take in sharing information and making things better for our members. However, there is a tremendous amount of detail in making these endeavors successful. It will take time and a great deal of effort, but is a great investment to lasting improvement.

Now our most important technological goal is bringing the employers into the process. We hope that these periodic updates will help you understand where we are trying to harness technology to improve service, but also to find where and how employers would like to become involved. We want employers to help guide the Fund and its activities as we move forward.

## **BENEFITS ADMINISTRATION REORGANIZES**

The Benefits Administration Division of PERF has reorganized to serve you better. Now we know that's what everyone says whenever they reorganize a company or government agency, but we hope that in this case it will be true. Not only have we reorganized, but we are also adding staff in critical areas to provide better service and faster response times. Naturally adding and training new staff will take some time so we hope you will be patient as all of these changes take effect.

When we started using the first business functions of our new SIRIS (State of Indiana Retirement Information System) computer system in March, it quickly became obvious that in order to get the maximum in efficiency from the new system reorganization was definitely called for. We were simply not able to continue assigning work to staff based on the ZIP codes and geographic locations of the employer. Besides which, we had discovered that for many of you, this was confusing. So we have reorganized.

We now have one section entirely devoted to retirement application processing and pre-retirement counseling, one section devoted to active member account maintenance and refund processing, and finally, one section devoted to membership application processing and employer support. We sincerely hope that our efforts will result in improved service to our members and their employers.

Here are some key phone numbers and e-mail addresses if you need to contact someone in Benefits Administration.

### ***Director of Benefits Administration***

William Hutchinson 317-233-4135  
Email: whutchinson@perf.state.in.us

### ***Appointments, Forms Requests***

Shantel Burrell 317-233-4157  
Email: sburrell@perf.state.in.us

### ***Retirement Application Processing and Pre-retirement Counseling Supervisor***

Marty Montgomery 317-233-4148  
Email: mmontgomery@perf.state.in.us

### ***Active Member Account Maintenance and Refund Processing Supervisor***

Charles Moore 317-233-4147  
Email: cmoore@perf.state.in.us

### ***Membership Application Processing and Employer Support Supervisor***

Karen Vise 317-233-4149  
Email: kvise@perf.state.in.us

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